Star BUSINESS

Corruption pervasive across the country

Special assistant to CA says

STAR BUSINESS REPORT

Corruption remains a pervasive challenge across the country, undermining the effective implementation of the national budget, Anisuzzaman Chowdhury, special assistant to the chief adviser, said at a post-budget discussion yesterday.

"There is no place in Bangladesh where corruption has not occurred," Chowdhury said at a post-budget discussion organised by the American Chamber of Commerce in Bangladesh (AmCham) at Sheraton Dhaka in Banani.

He noted that while the proposed budget sets ambitious goals, corruption and inefficiency in public spending remain major obstacles.

"The problem is not allocation, but how the money is spent," he said.

Chowdhury highlighted the government's growing reliance on domestic borrowing, saying that borrowing itself is not harmful if used productively and transparently.

He also stressed the need for institutional reforms, better policy coordination, and stronger oversight.

"Public funds are often misused or directed to the wrong projects, undermining development efforts year after year," he warned.

M Masrur Reaz, chairman and CEO of Policy Exchange Bangladesh, termed several targets in the proposed budget as "overly ambitious," particularly the goal of raising private investment to 24.3 percent of GDP amid domestic demand shortfalls, energy constraints, and political uncertainty.

"Achieving that would require major improvements in imports, forex stability, and inflation control," he said.

He also labelled the 6.5 percent inflation target as "unrealistic."

Additionally, Reaz expressed concern over the "tax-heavy" nature of the budget, noting that it disproportionately burdens small and medium enterprises.

He criticised the rise in corporate tax for non-listed firms, urging instead to widen the gap by reducing rates for listed companies.

READ MORE ON B3

Businesses decry turnover tax hike

Chambers say it punishes compliant firms and goes against sound tax policy

TAXES FIRMS WILL PAY

TYPES	FY26 Reduced rate*	FY26 Normal rate	FY27 & FY28 Reduced rate*	FY27 & FY28 Normal rate
Listed companies that issue shares over 10% of paid-up capital	20	22.5	20	22.5
Non-listed companies	25	27.5	NA	27.5

*** Condition:** *All income and receipts, and every single transaction exceeding Tk* **500,000** *or annual total expenses or investments exceeding Tk* **3,600,000** *must be made through bank transfers*

TURNOVER TAX

Govt proposes raising turnover tax to **1%** from existing **0.6%**

BUSINESSES AND TAX ANALYSTS SAY

- *Raising turnover tax is unfair and unsustainable*
- *It will exert immense pressure on businesses already struggling*
- *SMEs will bear the brunt of the increased turnover tax*
- *Many businesses may face severe financial strain or collapse*

> **If a business makes a profit, tax should apply only to the taxable income, not to revenue or any other fund. This provision should be withdrawn.**
>
> MCCI says

MD ASADUZ ZAMAN

The interim government's proposal to raise the turnover tax from 0.6 percent to 1 percent from the next fiscal year has sparked an outcry among business leaders, who said the measure could deal a fresh blow to firms already struggling to stay afloat.

While presenting the budget for the fiscal year 2025-26 on Monday, Finance Adviser Salehuddin Ahmed announced that the turnover tax for all business taxpayers would be set at 1 percent.

It will apply regardless of whether a company turns a profit or not. However, mobile phone operators, tobacco manufacturers and carbonated beverage producers will not fall under this rule.

Turnover tax, often referred to as minimum tax, is levied on a company's total sales rather than its profits. For example, if a firm records Tk 100 in sales but ends the year in the red, it must still pay Tk 1 in tax.

The tax raise has drawn criticism not only from business chambers but also from tax analysts, who say it could cripple struggling and marginal enterprises.

In response, revenue officials said businesses were provided with numerous facilities earlier. But now the authorities are in a rush to mobilise more resources amid the International Monetary Fund's (IMF) push under its ongoing $4.7 billion loan package.

"A minimum tax levied on turnover is contrary to sound tax policy," the Metropolitan Chamber of Commerce and Industry, Dhaka (MCCI), said in its budget reaction.

MCCI voiced disappointment over the finance bill, saying that turnover tax could be raised as high as 3 percent for some sectors, without any corresponding reduction in the corporate tax rate.

"If a business makes a profit, tax should apply only to the taxable income, not to revenue or any other fund. This provision should be withdrawn," the MCCI said.

The Dhaka Chamber of Commerce and Industry (DCCI) also voiced concern.

"The government has proposed the provision when businesses, especially those in the SME sector, are already under immense pressure," DCCI President Taskeen Ahmed said yesterday.

"For the past two and a half years, we have endured relentless shocks from currency devaluation and the post-Covid slowdown to a prolonged domestic crisis," he said.

READ MORE ON B3

Chambers warn budget may hurt business, investment

STAR BUSINESS REPORT

Just a day after the interim government proposed the national budget and tax measures for fiscal year 2025-26, leading business chambers expressed significant concern that several measures could potentially impede business growth and affect investment.

In a statement yesterday, the Metropolitan Chamber of Commerce and Industry (MCCI) said it is deeply concerned about the current investment climate.

It said the government has set a borrowing target of Tk 104,000 crore from the banking system, which is 5 percent higher than the revised budget for FY25.

"In doing so, the government may face two significant risks. First, increased borrowing from the banking sector could cause a crowding-out effect, reducing the availability of funds for private sector investors," it said.

MCCI said government's increased borrowing from banks could cause a crowding-out effect, reducing availability of funds for private sector

"Second, borrowing from the central bank could increase inflationary pressure, affecting consumers or the public. Therefore, the MCCI stresses the need for a proper balance between these two options. Additionally, there should be a provision for restructuring the banking sector to ensure strategic financial management."

With both public and private investment on the decline, the oldest chamber in Bangladesh said investment has dropped to its lowest point in the past 10 years, hitting 29.38 percent of the country's gross domestic product in FY25.

"This stagnation in investment has led to reduced employment opportunities and an increase in the number of people living in poverty. A weakening investment environment, exacerbated by factors such as official complexities and inadequate infrastructure, has intensified the economic crisis."

The MCCI said preparing the budget was a bold undertaking in the face of several challenges, including shrinking export markets due to rising inflation, sluggish investment trends, high bank lending rates, ongoing global conflicts, and Bangladesh's upcoming graduation from the list of least developed countries (LDCs) in 2026.

READ MORE ON B3

Inflation to drop below 7% within September

Governor says

STAR BUSINESS REPORT

Bangladesh Bank Governor Ahsan H Mansur expressed hope that inflation would come down to below 7 percent by August or September this year.

The inflation rate stood at 9.05 percent in May, down from 9.17 percent a month earlier, according to the latest data from the Bangladesh Bureau of Statistics (BBS).

Ahsan H Mansur

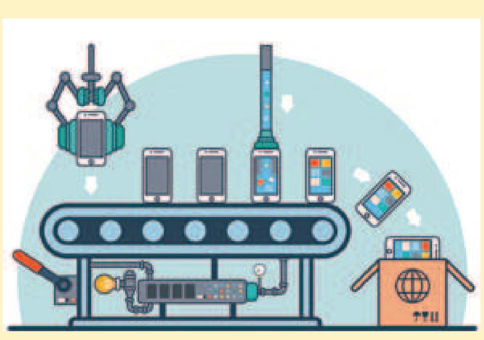
However, it has stayed above 9 percent for the past 27 consecutive months.

"We are hopeful that the availability of foreign exchange -- which is a key driver of our economy -- will remain stable and we are maintaining a tight monetary policy," the central bank governor said during a post-budget press conference organised by the finance ministry at the Osmani Memorial Auditorium in the capital yesterday.

To tackle inflationary pressures, the central bank has hiked the policy rate several times, which now stands at 10 percent.

However, Mansur added that they would

READ MORE ON B3



VAT hike deals fresh blow to local handset industry

MAHMUDUL HASAN

Bangladesh's mobile phone manufacturing industry, once hailed as a potential pillar of the country's digital ambitions, is bracing for a fresh blow after the interim government proposed a hike in value-added tax (VAT) at the production stage in the national budget for fiscal year 2025-26.

The move has sparked concerns among industry leaders, who warn it will drive up consumer prices, stall local production, and accelerate the growth of the grey market -- exacerbating the industry's woes.

Under the new structure, the VAT on handsets made entirely from locally produced components was raised from 2 percent to 4 percent.

For handsets assembled with at least two locally manufactured parts, the VAT has been raised from 5 percent to 7.5 percent.

Meanwhile, handsets fully assembled from imported components will now face a 10 percent VAT, up from 7.5 percent.

"Both consumers and manufacturers will be hurt by this move," Jakaria Shahid, a leader of the Mobile Phone Industry Owners' Association of Bangladesh (MPIOAB), told The Daily Star.

"Although we don't pass the entire burden onto customers, some of the effects inevitably trickle down onto them."

Alongside higher prices, he warned that smartphone penetration may be reduced and both the country's digital expansion goals and its "Made in Bangladesh" ambitions

READ MORE ON B3

Exports in May highest in 23 months

STAR BUSINESS REPORT

Bangladesh recorded $4.73 billion in exports in May, the highest in at least 23 months, owing to increased shipments of manufactured commodities, especially apparel, ahead of the Eid-ul-Azha festival to be celebrated on Saturday.

Exports grew 11.45 percent in May this fiscal year (2024-25) from $4.25 billion in the same month the previous year, according to data from the Export Promotion Bureau (EPB) yesterday.

Garments, which account for more than 80 percent of export receipts, recorded a year-on-year growth of nearly 12 percent to $3.91 billion in May of this fiscal year (FY) 2024-25.

The shipment of apparel, comprising knitwear and woven garments, was the highest in 35 months, according to data compiled by the Bangladesh Garment Manufacturers and Exporters Association (BGMEA).

Exports of major manufacturing items, namely leather and leather goods, jute and jute goods, and non-leather footwear, also increased last month. Agricultural product shipments, however, fell.

Overall exports in the July-May period of FY25 grew 10 percent year-on-year to $44.94 billion, a development that is helping the country gradually come out of economic stress.

The surging inflow of remittances provided further impetus to the recovery, although Bangladesh recorded a 3.97 percent economic growth in FY25, the lowest since the Covid-19 pandemic year, due to a slowdown in the agricultural and services sectors.

Mahmud Hasan Khan, president-elect of the BGMEA, said the situation regarding work orders was good.

"This is why exports showed better performance. Also, some work orders that were suspended were reinstated recently. Those factors had a positive impact on the earnings from exports," he said.

"If the 37 percent tariff announced by the Trump administration as part of its reciprocal tariff move on dozens of countries, including Bangladesh, is not properly negotiated and this rate continues, exports will be affected," he added.

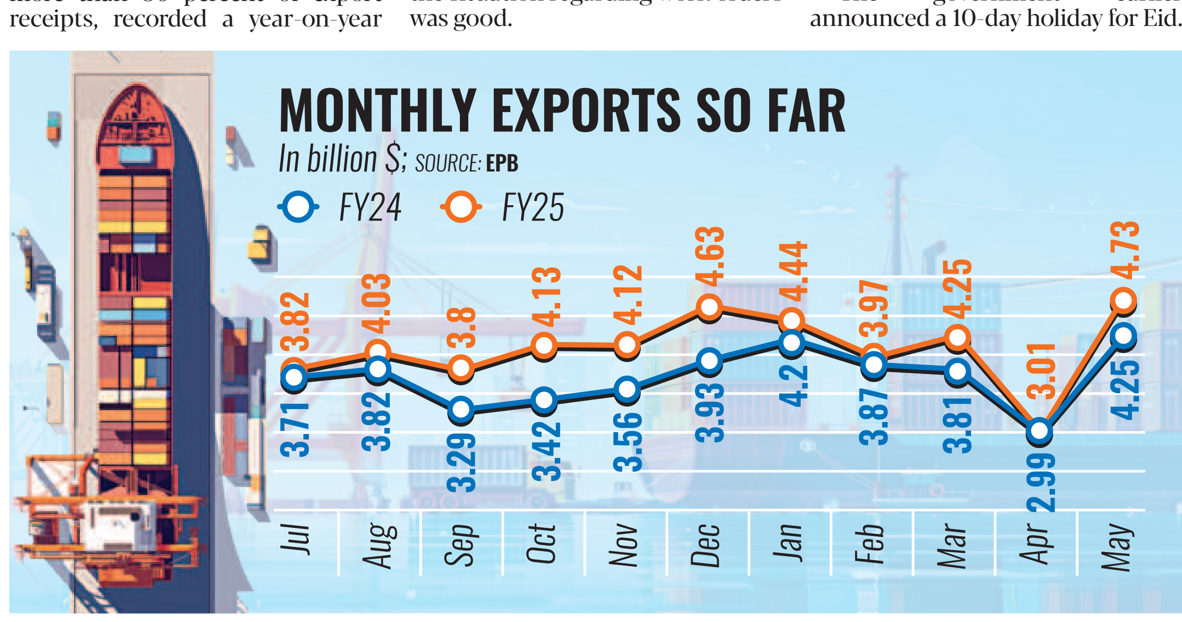
"But if the tariff can be reduced from the proposed 37 percent, Bangladesh's exports will continue to grow," Khan said.

He also said the export earnings from the garment sector would have been much better had there been no gas crisis last month.

Total garment exports rose 10 percent year-on-year to $36.55 billion in the July-May period of FY25.

Mohiuddin Rubel, additional managing director of Denim Expert Ltd, attributed the spike to advance shipments ahead of Eid-ul-Azha, the second biggest religious festival in the country.

The government earlier announced a 10-day holiday for Eid.



The EPB data showed exports of leather and leather goods, the second-largest export earner after garments, climbed 35 percent year-on-year in May, while non-leather footwear exports shot up 21 percent in the same month.

During the July-May period of FY25, leather and leather goods exports crossed the $1 billion mark, posting a 12.55 percent year-on-year growth.

Non-leather or artificial footwear clocked roughly half a billion in exports in the 11 months of the fiscal year ending this month.

Budget targets chocolate, lipstick

STAR BUSINESS REPORT

If you're planning to import cheap lipstick into Bangladesh anytime soon, think again. The country's interim government, in its latest budget, has quietly declared war on undervalued imports with a series of oddly specific tweaks to customs rules. Among the victims: chocolate bars, lipsticks, eye shadow, and -- wait for it -- inflatable toys.

The changes, buried in the budget document, read like a shopping list for a middle-class household. Minimum taxable values for imported chocolates have more than doubled -- from $4 to $10 per kilogramme. Lipstick? Now $40/kg, up from $20. And that cheap inflatable unicorn your kid's been begging for? Add 14 percent to the price tag, thanks to a new floor of $4 per unit (up from $3.50).

Is it about fighting under-invoicing -- a favourite pastime of importers everywhere? It could be a soft nudge against importers of luxury chocolates or toy laser lights.

The problem? Bangladesh's affluent urbanites accustomed to imported treats and toys won't stop buying. They'll just pay more. This won't kill demand but make birthdays slightly more expensive.

There's a bigger picture. These tweaks are part of a broader scramble to offset losses coming from duty cuts elsewhere. But instead of sweeping reforms, the

READ MORE ON B3

ACI Motors partners with EcoFlow to launch portable power solutions

STAR BUSINESS DESK

ACI Motors Limited, an automobile enterprise and a subsidiary of ACI Limited, has recently signed a strategic partnership deal with the Chinese technology firm EcoFlow to introduce a new line of portable energy solutions tailored for the Bangladeshi market.

FH Ansarey, managing director of ACI Motors, and Sharon Li, regional marketing director for Southeast Asia at EcoFlow, inaugurated the launch of these innovative energy solutions at the ACI Centre in the capital's Tejgaon, according to a press release.

Commenting on the initiative, Ansarey stated: "The demand for alternative energy systems is rapidly growing in Bangladesh. Through EcoFlow's globally acclaimed technology and ACI Motors' extensive market insight, this collaboration promises to drive sustainable transformation within the energy sector."

Li remarked, "We are honoured to commence our journey in Bangladesh. Our commitment lies in delivering affordable, sophisticated energy solutions to the people of this country."

EcoFlow's product portfolio encompasses portable power stations, solar panels, and an array of advanced energy solutions designed to address the power needs of remote regions and provide critical backup during emergencies across Bangladesh.

"With EcoFlow's cutting-edge technology coupled with ACI Motors' deep-rooted expertise, we are well-positioned to spearhead innovation and sustainability in Bangladesh's energy landscape," added Subrata Ranjan Das, deputy managing director of ACI Motors Limited.

PHOTO: ACI MOTORS

FH Ansarey, managing director of ACI Motors, and Sharon Li, regional marketing director for Southeast Asia at EcoFlow, pose for photographs during the launch of innovative energy solutions at the ACI Centre in the capital's Tejgaon recently.

bKash presents fridges, TVs to top remittance recipients

STAR BUSINESS DESK

bKash, a leading mobile financial services (MFS) provider, has presented 14 individuals with Hisense deep freezers and 43-inch Hisense smart TVs for receiving the highest amount of remittance through its platform during the first week of a special campaign ahead of Eid-ul-Azha.

JM Taslim Kabir, group head of marketing at Fair Group, and Mohammad Zahidul Ahasan, head of remittance at bKash, handed over the prizes at a ceremony held at the latter's head office in Dhaka recently, according to a press release.

Each customer is eligible to receive either a fridge or a TV and a discount coupon only once during the campaign period.

Winners' coupons, including those for daily fridge and TV recipients, are automatically credited to their bKash accounts.

Prime Bank, DX New Energy team up to empower women

PHOTO: PRIME BANK

Dewan Kanon, founder and chief executive officer of DX Group, and Md Nazeem A Choudhury, deputy managing director of Prime Bank PLC, pose for photographs after signing a memorandum of understanding at a ceremony in Dhaka recently.

STAR BUSINESS DESK

Prime Bank PLC has recently signed a memorandum of understanding (MoU) with DX New Energy Industries Limited, with the objective of providing complimentary training on riding motorcycle to the bank's "Neera" customers at the latter's training centres across the country.

Md Nazeem A Choudhury, deputy managing director of the bank, and Dewan Kanon, founder and chief executive officer of DX Group, signed the MoU at a ceremony held in Dhaka, according to a press release.

This strategic collaboration represents a significant stride towards advancing women's mobility and autonomy, thereby contributing meaningfully to their socio-economic empowerment.

By equipping women with the ability and confidence to independently traverse their daily routes, Prime Bank is nurturing a culture of self-reliance and expanded opportunity.

As part of the wider initiative, Neera customers will also have access to personal loans under simplified conditions, designed to support their ambitions and cater to a range of individual needs with enhanced financial flexibility.

Md Mostafizur Rahman, managing director (current charge) of Citizens Bank PLC, inaugurates the Chowdhuryhat branch of the bank in Chattogram's Hathazari on Monday. Md Abdul Latif, deputy managing director of the bank, and Borhan Uddin Chowdhury, manager of Agrabad branch, were also present. PHOTO: CITIZENS BANK

Mastercard, ShopUp join forces to empower women-led small businesses

STAR BUSINESS DESK

The Mastercard Center for Inclusive Growth, in partnership with commerce platform ShopUp, has launched an initiative titled Porshi, aimed at equipping women-led small businesses in Bangladesh with the digital tools and skills necessary to flourish in the modern economy.

Supported by the Gates Foundation, the programme seeks to upskill 1,600 female small business owners and enhance their access to a broader range of fast-moving consumer goods. Approximately 40 percent of these entrepreneurs are expected to consistently utilise ShopUp's app to streamline last-mile delivery services.

"Small businesses play a vital role in building strong and resilient communities," said Subhashini Chandran, senior vice-president, social impact at the Mastercard Center for Inclusive Growth. "This initiative will enhance the revenue streams of women entrepreneurs and empower them to become more resilient, competitive, and successful in today's digital economy," she added.

PHOTO: MASTERCARD

Subhashini Chandran, senior vice-president of Social Impact at Mastercard Center for Inclusive Growth, Syed Mohammad Kamal, country manager for Bangladesh at Mastercard, and Mamun Rashid, president of ShopUp, pose for group photographs with participants of the programme at BRAC Learning Centre in Dinajpur recently.

Pubali Bank, ACI ink deal for cashless solutions

STAR BUSINESS DESK

Pubali Bank PLC has entered into a strategic partnership agreement with Advanced Chemical Industries (ACI) PLC and ACI Logistics Limited (Shwapno) offering its digital banking services.

Mohammad Esha, deputy managing director of the bank, and Md Abu Hasan Zaman, director of treasury at ACI PLC, signed the agreement at a ceremony in Dhaka recently, the bank said in a press release.

Under the agreement, ACI PLC will benefit from Pubali Bank's advanced digital banking services directly from its corporate premises, eliminating the need for in-branch visits.

Additionally, Pubali Bank will deploy its POS terminals and Bangla QR solutions across more than 600 Shwapno outlets nationwide, enabling customers to enjoy seamless, cashless transactions using debit and credit cards, as well as other banking applications.

Md Shahnewaz Khan, Deputy Managing Director of the bank, also attended the signing ceremony.

Md Helal Uddin, general manager and head of ICTOD at the bank; Endra Mohan Sutradhar, general manager and head of SDD and CTO; Shahin Shahria, general manager and head of Mohakhali corporate branch; and Md Rabiul Alam, deputy general manager and head of ADC division; were present.

Md Shamsul Alam, assistant general manager of ADC division at the bank; and Sabrina Rahman, corporate treasury manager of ACI PLC; and Masud Ali Kazi, manager of treasury; along with other senior officials from both the organisations, were also present.

Md Abu Hasan Zaman, director of treasury at Advanced Chemical Industries PLC, and Mohammad Esha, deputy managing director of Pubali Bank PLC, shake hands and exchange signed documents of an agreement in Dhaka recently. PHOTO: PUBALI BANK

Mercantile Bank celebrates 26th anniversary

STAR BUSINESS DESK

Mercantile Bank PLC celebrated its 26th founding anniversary on Monday in an event at its head office in Dhaka.

Md Anwarul Haque, chairman of the bank, inaugurated the programme as the chief guest, according to a press release issued by the bank.

In his remarks, Haque noted, "Mercantile Bank has made commendable progress across all indicators. Through sustained effort over the past 26 years, it has established itself as a sustainable, reliable, and customer-centric financial institution."

He further emphasised the need to enhance technology-driven and customer-friendly banking services while upholding corporate governance in the years ahead. Mati Ul Hasan, managing director of the bank, stated that the recovery of classified loans will be a key priority for the current fiscal year.

Md Anwarul Haque, chairman of Mercantile Bank PLC, inaugurates the bank's 26th founding anniversary at the bank's head office in Dhaka on Monday. Mati Ul Hasan, managing director of the bank, was present. PHOTO: MERCANTILE BANK

Reducing penalty on false declarations will encourage smuggling: experts

MOHAMMAD SUMAN

In the Finance Ordinance 2025-26, presented on Monday, the government proposed amending the Customs Act 2023 and revising the penalty structure for tax evasion related to intentional false declarations during import clearance, reducing the minimum fine from twice the evaded amount to an equivalent sum.

"The intent behind reducing the penalty was to ease compliance for traders," said a senior official of the Ministry of Commerce, speaking on condition of anonymity.

However, while some importers have welcomed the change, experts caution that the policy shift may undermine transparency and regulatory discipline and encourage fraudulent practices among importers.

Analysts argue that sustainable economic development demands stringent enforcement of rules against fraudulence. Without firm action, they warn, long-term revenue collection and market stability could be severely compromised.

Iftekharuzzaman, executive director of Transparency International Bangladesh (TIB), told The Daily Star, "This provision is going to further incentivise evasion of duties and taxes.

"Expanding the scope to manipulate invoices, which is a key channel of illicit financial transfers, will encourage money laundering," he said. "It also implies impunity rather than accountability for collusive corruption," he said.

"This is disappointing and self-defeating for the interim government, entrusted with the task of state reform, at the core of which are control and prevention of corruption, tax evasion and money laundering," Iftekharuzzaman added.

SM Nazer Hossain, vice-president of the Consumers Association of Bangladesh, told The Daily Star, "If the government fails to take strong action against revenue evasion, fraudulent activities will rise, causing exponential losses.

"A reconsideration of the penalty framework is necessary," he added.

In June 2020, the NBR introduced a minimum fine for false declarations, set at twice the amount of revenue evaded. Depending on the extent of the irregularities, the penalty could go as high as four times the amount owed.

There was no minimum fine prior to this.

After the rule was implemented across all customs stations and houses in August 2020, customs revenue saw a marked increase as the number of such incidents dropped significantly.

According to Custom House, Chattogram, the policy had a strong and immediate impact.

Revenue collection jumped by over 25 percent in FY21, shooting up from Tk 41,854 crore in FY20 to Tk 51,576 crore -- breaking the trend of slow or stagnant growth.

Customs revenue rose from Tk 31,300 crore in FY16 to Tk 36,657 crore in FY17, Tk 42,344 crore in FY18 and Tk 43,577 crore in FY19. In the years since, revenue has continued to grow, hitting Tk 62,140 crore in FY22, Tk 62,658 crore in FY23, Tk 68,563 crore in FY24, and approximately Tk 69,000 crore by May of FY25.

This consistent upward momentum suggests stricter penalty measures discouraged false declarations and significantly boosted government revenue.

In total, the latest Finance Ordinance proposed changes to 15 sections of the Customs Act 2023.

Chambers warn

FROM PAGE B1

"Given the current context, implementing the budget will be highly challenging," it added.

The chamber also expressed disappointment over the proposed increase in turnover tax from 0.60 percent to up to 3 percent, depending on the sector, especially since no initiative has been taken to reduce the effective corporate tax rate.

The MCCI said a minimum tax being levied on turnover is contrary to sound tax policy.

Although the chamber said the increase in the allowable perquisite limit from Tk 10 lakh to Tk 20 lakh for employees will slightly reduce corporate tax expenses, it added, "The MCCI believes that there should be no cap on perquisites at all."

It also urged the interim government to expand the tax base through proper tax management and modern, inclusive tax policies.

It said the increase in the tax-free income threshold for individual taxpayers to Tk 375,000 for the assessment years 2026-2027 and 2027-2028 is welcome in view of the rising cost of living.

"However, because of changes in tax slabs and rates, the overall tax burden on taxpayers at all levels will increase."

Additionally, increasing the minimum tax for marginal taxpayers from Tk 3,000 to Tk 5,000 will enhance the tax burden on this vulnerable group.

The MCCI also said it believes it is necessary to limit the discretionary power of tax collection authorities.

Meanwhile, the Foreign Investors' Chamber of Commerce and Industry (FICCI) voiced significant concerns regarding several provisions of the proposed Finance Ordinance 2025, which could potentially impede business growth and increase the burden on compliant taxpayers.

A major concern lies with publicly traded companies that have less than 10 percent of their shares issued through an initial public offering, as they are slated to face an additional 7.5 percent corporate tax.

"The impact of this tax at a significantly increased rate appears to be discriminatory."

It said while the increase in the tax-exempt income threshold at the entry level is a positive step, the overall changes introduced in the tax structure are likely to impose an additional burden on middle-income earners when viewed in totality.

In another statement, Bangladesh Chamber of Industries (BCI) President Anwar-Ul-Alam Chowdhury (Parvez) said the government has made revenue collection the main goal in the proposed budget for FY26.

"Too much dependence has been placed on personal and corporate tax," he said. "Tax collection is low because of procedural limitations, and there is no direction to address this issue.

"We do not see any steps to expand the tax net."

The value-added tax on raw materials for the manufacturing sector has been increased, which will fuel production costs. "We do not know whether inflation will reduce through these measures.

"All have been prepared in line with the formula of the International Monetary Fund," he said.

Businesses decry turnover tax hike

FROM PAGE B1

"Genuine businesses are now paying salaries out of their own capital. This is not a sign of a healthy economy."

Ahmed questioned the logic behind taxing revenue regardless of profitability.

"If I run a business worth Tk 100 crore and make a loss, the government still demands Tk 1 crore in turnover tax.

How is that reasonable? Whether I profit or not, I am being forced to pay from my capital. Why punish those who already comply?"

Instead of repeatedly targeting the same set of taxpayers, the DCCI president urged the government to broaden the tax base.

More than 80 percent of the country's taxpayers are concentrated in Dhaka and Chattogram, he said.

The Bangladesh Chamber of Industries (BCI) echoed similar concerns, saying the proposed hike would disproportionately affect the country's industries, especially the Cottage, Micro, Small and Medium Enterprises (CMSME) sector.

"We urge a reconsideration of this decision to increase the turnover tax," the chamber said.

Fahmida Khatun, executive director of the local think tank Centre for Policy Dialogue (CPD), said the government should adopt a more rational approach.

"It must be imposed rationally. Why should a company that incurs losses still be liable to pay turnover tax?"

Meanwhile, Snehasish Barua, managing director of SMAC Advisory Services Limited, said, "The 1 percent turnover tax is a big blow for companies that run on thin margins or are in the red."

The tax expert said some businesses may be forced to pay this tax from their capital. "Such arbitrary policies may incentivise tax evasion and punish law-abiding companies."

The budget also includes a proposal to offer a reduced corporate tax rate of 22.5 percent to listed companies that raise more than 10 percent of their paid-up capital through an Initial Public Offering (IPO). Firms failing to meet this requirement would remain subject to the standard 27.5 percent rate.

In response, the MCCI said the benefit should not be confined to IPOs alone.

"It would be more reasonable to include transfers through Public Offerings (POs) as well," the chamber noted.

Corruption pervasive

FROM PAGE B1

Most importantly, he said the budget lacks a clear reform roadmap in trade, fiscal capacity, and public service delivery — areas where real progress could begin immediately.

Fahmida Khatun, the executive director at the Centre for Policy Dialogue, said the government continues to prioritise physical infrastructure over social infrastructure, with education and health once again underfunded in the budget for FY26.

The allocation for education dropped to 1.53 percent of GDP, down from 1.67 percent last year, far below the 8th Five-Year Plan's target of 4 percent.

"Among 39 least developed countries, Bangladesh ranks third-lowest in education spending," she noted. Health fares worse, with the allocation falling to 0.67 percent of GDP.

Khatun also highlighted poor fund utilisation and a focus on infrastructure over quality. She warned that without skilled human resources, the country risks building infrastructure it cannot run efficiently.

Zahid Hussain, a former lead economist at the World Bank's Dhaka office, questioned the feasibility of the government's Tk 5.6 lakh crore revenue target in the proposed budget.

"The highest revenue Bangladesh has ever achieved is around Tk 4 lakh crore. A leap to 5.6 lakh crore in one year is unrealistic," he said.

He noted that while the budget includes measures to boost revenue, historical performance suggests the target is overly ambitious.

Hussain termed the foreign financing target — particularly net foreign financing — as achievable, but said it depends on improved utilisation of project credits.

Inflation to drop below 7% within September

FROM PAGE B1

begin to gradually ease the monetary policy once inflation falls below 7 percent.

He also said stabilising the exchange rate was their main challenge in tackling inflationary pressure.

"The main challenge we had, we have largely overcome it," he said, adding, "Our main challenge was to stabilise the exchange rate because as long as we couldn't stabilise the exchange rate, we couldn't win the battle against inflation.

"If we could not stabilise the exchange rate, the prices of imported goods would rise, and that would push up prices in our domestic economy," he said.

Now the exchange rate has become relatively stable, hovering at around Tk 122 to Tk 123 per US dollar for the past seven to eight months, said the BB governor, adding that they were now feeling some relief.

"And since it has remained stable even after being left to the market, we have gained confidence that inflation expectations are moving in a positive direction," he said.

Budget targets

FROM PAGE B1

government is tinkering at the edges -- raising duties on niche goods.

There's also a curious mismatch. Why target lipstick but not smartphones? Why inflatable toys but not, say, bovine meat? One theory: these are low-risk, high-visibility moves. No one riots over expensive mascara or Swiss chocolates.

VAT hike deals

FROM PAGE B1

would be hampered by the move.

The VAT hike comes at a time when Bangladesh's mobile phone industry is already under pressure from rising taxes and policy uncertainty, which has contributed to a sharp drop in legal phone sales and a ballooning grey market.

The country made significant progress in mobile phone manufacturing following major tax incentives introduced in FY18. Since then, 17 local factories have been established, creating jobs for approximately 15,000 people.

Before FY22, the total tax on imported smartphones hovered at around 58 percent, while locally produced handsets enjoyed a lower tax burden of 15 to 20 percent.

However, this advantage is set to be eroded further.

Under the proposed terms, the cumulative tax burden on local manufacturing is estimated to exceed 40 percent, due to a 7.5 percent VAT applied at every stage -- from production to distribution to retail -- on top of the new production-stage VAT.

This policy environment is in sharp contrast to regional trends.

While India has capped total taxes on local production of handsets at around 25 percent and Pakistan at 20 percent, Bangladesh's tax rate remains the highest in South Asia.

Unsurprisingly, the smartphone market in Pakistan is now nearly twice the size of Bangladesh's, while India aggressively expands its "Make in India" initiative.

As a result, Bangladesh has seen a sharp decline in sales of locally manufactured handsets.

This can be seen by comparing FY21 to FY24. Over the period, smartphone sales dropped by 34 percent, feature phone sales fell by 42 percent, and the overall mobile market shrank by 39 percent, according to the MPIOAB data. The vacuum created by declining legal sales is being filled rapidly by illegal imports. These smuggled handsets, which bypass taxes and VAT, are sold at significantly lower prices.

"The grey market now accounts for nearly 50 percent of all phone sales. And with the latest VAT hike, it could easily surpass 60 percent," warned Rizwanul Haque, vice-president of the MPIOAB.

He urged the government to reconsider the VAT hike and instead explore ways to support the industry and safeguard investor confidence.

Haque proposed a five-point policy to ensure long-term stability and growth.

First, he called for stable policies with at least a five-year horizon to reassure investors.

Second, he urged the government to allow locally manufactured accessories such as batteries, chargers, and cables to be sold freely in the open market to build backward linkages due to lack of customs policy.

Third, he demanded the immediate removal of the 7.5 percent VAT at the sales stage to make legally manufactured phones more competitive. He also emphasised the need for swift implementation of the National Equipment Identity Register to block illegal phones from accessing mobile networks.

Finally, he recommended prioritising completely knocked down manufacturing over semi knocked down production to deepen local value addition and create more jobs.

If the government fails to act, Haque warned, the damage to local manufacturing could become irreversible -- pushing Bangladesh further away from its digital and economic development goals.

PHOTOS: COLLECTED

Hotels at tourist spots ALMOST FULLY BOOKED

Extended Eid break boosts travel to popular destinations

SUKANTA HALDER

Hotels, motels and resorts at popular tourist destinations across the country are almost fully booked during the ten-day Eid-ul-Azha holidays, which begin in the first week of June.

The majority of holidaymakers are heading to beach town Cox's Bazar, while others plan to cruise the haor wetlands on houseboats or explore scenic tea gardens in Sylhet.

Resorts in southwestern Sundarbans and even those just outside Dhaka have also seen a surge in bookings. This year's rare 10-day holiday for public employees has shifted the usual trend of only a few days off, encouraging more domestic travel.

Following the lead of government offices, many private organisations including banks and NGOs have announced similar extended breaks. Besides, schools have announced closures of more than 10 days.

Tourism industry people say the long holiday and increasing international airfares are key reasons for more people opting for domestic holidays this year.

According to them, bookings are relatively lighter at the very start and end of the break during June 5-14, but the days in between are almost fully booked. Erratic weather conditions have put a dampener on some travel plans, but bookings may rise further if the conditions improve.

Sifat Afrin Shams, a private firm employee in Dhaka, plans to visit Birishiri in Netrokona with her family.

"Although it was very difficult to book a room just ten days before Eid, we were finally able to manage one after multiple attempts," she said. "All good-quality rooms were already booked, so we had to go with whatever was available."

At Seagull Hotel in Cox's Bazar, more than 90 percent of rooms have been booked from June 8 to 12.

"It would be safe to say that Cox's Bazar will see a large influx of tourists this Eid," said front office manager Mohammad Asaduzzaman.

Similarly, Mermaid Beach Resort in Cox's Bazar is fully booked for six of the ten days, although general manager Rana Karmakar said the remaining days, falling at the very beginning and end of the holiday, are not attracting as much interest.

In Khulna, the Sundori Eco Resort has only two rooms left unbooked for the entire holiday period, said Redwan Ahmed Siam, assistant general for sales and marketing.

He believes this was due to people's growing enthusiasm for eco-tourism and domestic getaways.

Md Abdullah Al Kafi, managing director of Meghmati Village Resort in Mymensingh, said all their rooms have been reserved from 8 to 13 June. "This was not the case during the previous Eid-ul-Azha, which had only a three-day holiday," Kafi said.

According to him, rising airfares on international routes have slowed outbound tourism. "Domestic tourism is expected to perform better this time."

Alamgir Ferdous, managing director of Chuti Resort Limited, said 65 percent of their rooms are already booked.

"This trend is a positive indicator for the growth of domestic tourism and highlights the rising preference for eco-friendly and accessible vacation options," he said.

The company runs three resorts: Chuti Resort Gazipur, Chuti Resort Purbachal, and Chuti Aronnobash Resort Pubail -- all within easy reach of the capital.

At Nokkhottrobari Resort in Gazipur, bookings usually pick up closer to the holiday, said its accounts manager Nitai Chandra Sutradhar. "We are receiving a good number of enquiries, though actual bookings tend to lag behind. Still, we are hopeful that if the weather holds, the rate will go up."

However, the picture is different for Sajek Valley, where demand for pre-booking has been relatively low this time, said Imranul Alam, managing director of Tour Group Bangladesh.

In contrast, Tanguar Haor in Sunamganj is drawing more attention during the monsoon season, with almost all houseboats already booked from the day after Eid until June 15.

In Habiganj, the Palace Luxury Resort is fully booked for the Eid holidays.

"The increase in business can be largely attributed to the unusually long Eid holiday this year," said Mohammad Tanvir Hassan, head of sales and marketing.

"In previous years, shorter breaks limited travel plans, often restricting visitors to two or three days. This year, with a 10-day holiday, people are opting for longer stays, boosting business for resorts," commented Hassan.

A budget for the future?

Gauging Bangladesh's fiscal strategy for inclusive and sustainable growth

MD DEEN ISLAM

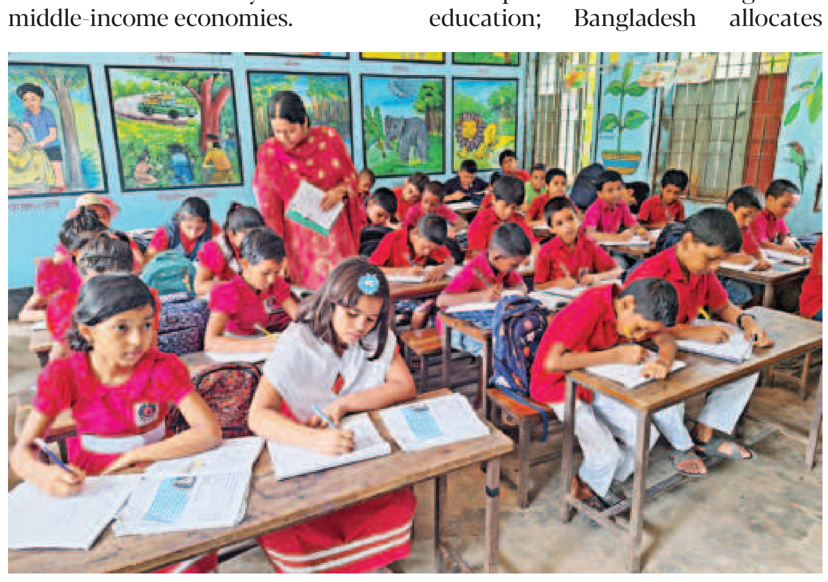
The national budget for FY2025-26, presented by Bangladesh's interim government, marks a notable departure from the conventional, growth-obsessed fiscal templates of previous years. With a total allocation of Tk 7,90,000 crore—Tk 7,000 crore less than the previous fiscal year—this is the first time in over a decade that a Bangladeshi budget has shrunk in nominal terms. This shift, deliberate and symbolic, aims to reorient national priorities away from infrastructure-driven expansion towards macroeconomic stability, institutional reform, and human development. While this reset offers promising signs for long-term resilience, critical shortcomings—particularly in human capital investment and resource mobilisation—threaten to undermine the government's ambition for inclusive and sustainable growth.

From a theoretical perspective, this budget reflects an implicit adoption of the "quality over quantity" growth paradigm. Traditional Keynesian and neoclassical growth models often emphasise large-scale capital accumulation (through infrastructure investment) as the engine of GDP growth. However, more contemporary theories, including the endogenous growth model (Romer, 1990), argue that investments in human capital, innovation, and institutions are the primary drivers of sustained, inclusive development.

In this sense, the interim government's budget places itself within the latter school of thought. It aims to correct structural distortions by prioritising governance reforms, transparency, and efficient public service delivery. The formation of eleven sectoral reform commissions—including for electoral governance, public administration, and anti-corruption—is a major institutional leap. The repeal of opaque legislation such as the Quick Enhancement of Electricity and Energy Supply (Special Provisions) Act, 2010 further signals an intent to reinstate transparency and rule-based decision-making.

Macroeconomic stabilisation also receives focused attention. The adoption of contractionary monetary policy and subsidy rationalisation in sectors like energy and agriculture have already helped reduce point-to-point inflation from 11.66 percent (July 2024) to 9.17 percent (April 2025). These moves echo the orthodox monetary framework advocated by the Monetarist school, which emphasises inflation control as a precondition for long-term growth and investment.

The budget sets a GDP growth target of 5.5 percent—lower than the approximate 6 percent average achieved in the past decade. While some may view this as a retreat in ambition, it arguably reflects prudent realism. Countries like Chile in the early 2000s, Vietnam post-2011, and Indonesia post-Asian crisis all demonstrated that moderate, stable growth anchored in governance reforms and fiscal discipline can lay the groundwork for long-term prosperity. These countries gradually transitioned from aid dependence and external volatility to resilient middle-income economies.



Allocation to education falls significantly below global benchmarks. According to Unesco, countries should dedicate 15-20 percent of their budgets to education, while Bangladesh spends about 12 percent. PHOTO: STAR/FILE

If Bangladesh successfully implements institutional reforms, enhances regulatory predictability, and reduces corruption, it could attract higher-quality investment, encourage formal sector expansion, and boost productivity—outcomes far more vital than short-term headline GDP figures.

Despite the shift in rhetoric, the budget's treatment of human capital investment remains underwhelming. Allocations to education and health—Tk 95,644 crore and Tk 41,908 crore respectively—fall significantly below global benchmarks. According to Unesco, countries should allocate 15-20 percent of their budgets to education; Bangladesh allocates about 12 percent. Similarly, WHO recommends 5-6 percent for health, and Bangladesh barely meets the lower bound.

In comparison, Sri Lanka spends over 9 percent of its national budget on health, and Vietnam allocates nearly 20 percent to education. These countries have leveraged robust public investment in human capital to build competitive, export-oriented economies supported by a healthy and skilled workforce.

The Human Capital Theory posits that returns on education and health investments are among the highest in terms of long-term growth and poverty reduction. Therefore, the budget's failure to significantly scale up these sectors risks perpetuating structural inequalities, regional disparities, and labour market inefficiencies.

Underlying the limited fiscal space is Bangladesh's perennial failure to mobilise adequate domestic resources. This restricts the government's ability to finance social protection, improve infrastructure, and invest in green transition without excessive reliance on foreign borrowing. What's more, the budget offers no new roadmap to address this. While efforts to digitise tax systems and expand the iBAS++ (Integrated Budget and Accounting System) platform are commendable, the absence of clear strategies to broaden the tax base, primarily through direct taxation on property, capital gains, and high-net-worth individuals, reflects a serious policy gap. The global experience shows that strong political will, taxpayer education, and simplification of tax codes can significantly improve revenue collection. Bangladesh must adopt similar innovations, including greater autonomy for its tax authorities, integration of land and business registries, and real-time data analytics to curb evasion.

The budget makes modest increases in allowances for the elderly, widows, and persons with disabilities—Tk 50-Tk 100 per month—but these adjustments are negligible in the context of 10 percent+ inflation. Social protection coverage remains shallow, especially in urban informal sectors where most of the poor reside. This undermines Bangladesh's aspiration to build an inclusive growth model, where the development gains are widely shared. However, a well-targeted, scalable social safety net reduces poverty and stimulates local economies and human capital accumulation. Bangladesh must increase allocations, modernise delivery systems, reduce leakages, and link social protection with health, education, and employment services—moving from fragmented cash transfers to "social protection floors," as recommended by the ILO.

As the country prepares to graduate from least developed country (LDC) status in 2026, it faces a narrow window to consolidate fiscal discipline with social investment, strengthen institutions, and position itself for resilient middle-income status. This budget plants important seeds—but without adequate water and sunlight in the form of education, health, and equity—it may struggle to grow into the inclusive prosperity that Bangladesh deserves.

The writer is an associate professor of economics at Dhaka University and research director of RAPID